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# FOREIGN AGRICULTURE

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## The CAP Under Pressure

## American Foods in the German Market

January 17, 1972

Foreign Agricultural Service
U.S. DEPARTMENT OF AGRICULTURE

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This week's cover:

**French farm children like these could find their lives different as a result of changes in the Common Agricultural Policy of the European Community. Problems in maintaining farm income through price policy alone, plus problems arising from enlargement, are already foreshadowing changes in the structure of EC agriculture (see article beginning this page).**

Earl L. Butz, Secretary of Agriculture

Clarence D. Palmby, Assistant Secretary for International Affairs and Commodity Programs

Raymond A. Ioanes, Administrator, Foreign Agricultural Service

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**An old farm in France. The EC's f policy includes efforts to modernize agriculture of the Member States.**

# Common Agricultura Policy Under Pressur

## Part I. Consequences of Pric Policy and EC Enlargemen

By JOHN F. HUDSON
*Trade Policy Division*
*Foreign Agricultural Service*

**This is Part I of a two-part article on the various factors now working for change in the European Community's CAP. Part II will deal with CAP changes that may come about as a result of the resolution of international monetary problems.**

THE EUROPEAN Community (EC) is now facing many important decisions on the future direction of its Common Agricultural Policy (CAP). Will the CAP change as the result of frustration over its inability to maintain farm income by raising prices; or as the result of the admission of four new countries into the EC; or as the result of a world monetary settlement?

The answer is clearly affirmative on all three counts, and some of the changes can already be foreseen.

Some changes now taking place involve the beginning of measures to modernize farming. There are also some technical changes in view, to accommodate the United Kingdom and the other new members of the Community; and enlargement will have longer run effects on decision making and costs. Settlement of the monetary crisis (to be dealt with in a later article) will be a further factor working for change.

**Failure of price policies.** A basic purpose of the CAP is to assure "a fair standard of living for the agricultural population, particularly by increasing the individual earnings of persons engaged in agriculture" (Rome Treaty, Article XXXIX). Up to now, the EC has attempted to meet this objective mainly by raising farm prices. These are supported at high levels through various devices, including unlimited Government purchasing at guaranteed prices, export subsidies, variable import levies, and various other charges or restrictions on imports.

While there is no ready statistical measure of farm income in the EC, some notion of the inadequacy of this price policy can be seen from the persistence of a marked cost-price gap. From 1963 to 1969, prices received by EC farmers rose roughly 11 percent; in 1970 they leveled off or dropped somewhat, except in France, where prices were raised further in adjustment to the 1969 devaluation. Over the same period, however, prices paid by farmers also rose. Farm wages in particular went up 50 to 70 percent by 1969 with further large increases indicated for 1970.

Some of this cost-price squeeze was offset by increased output; productivity on the most efficient farms is estimated to rise about 3 percent per year. Net farm earnings, however, cannot have increased much since 1963, whereas by 1969 there had been a rise in the general cost of living that ranged from 16 percent in Germany to 34 percent in the Netherlands, and another 4 to 6 percent was added in 1970.

The CAP has relied upon price, since its chief objective was to equalize conditions of price competition in the Member States so that charges and restrictions on intra-EC trade could be removed. A single system of support was provided for each farm product. The CAP does not control production; doing that would tend to limit the ability of lower cost EC producers to expand their markets. Price support levels were set high, because in the absence of any other effective form of income support, smaller farms could not survive. Nearly half the farms in the EC are less than 13 acres in size. Only 3 percent have more than 125 acres.

High support levels, however, call forth increasing production. The 1971-72 grain crop is now estimated at a record 77 million tons. Compared with the 1962-66 average, wheat production is up 22 percent, barley 35 percent, and corn 106 percent.

Only when surpluses arose that threatened to break down the marketing system did the EC seriously begin to consider the need for agricultural measures other than price support. In December 1968, the EC Commission made public the so-called Mansholt Plan, a set of sweeping recommendations for the reform of agriculture in the Community in 10 years. The recommendations included reduction of the number of farmers by half, removal of over 12 million acres from production, retirement annuities, grants for cessation of farming or sale of farms to larger producing units, grants to facilitate reemployment outside agriculture, and various kinds of aid to the establishment of larger production units.

The EC Council of Ministers, however, found it extremely difficult to come to grips with such questions as whether the estimated cost of $2.5 billion annually was realistic, who would pay it, whether the particular measures suggested were workable, who would administer them, who would hire the farmers who quit farming—and whether in the end agricultural reform would succeed in preventing surpluses or reducing the cost of price support.

Only in March 1971 was the Council able to agree on four approaches:

- Aid to those who give up farming —in particular, a grant (equal to 8 times the rental value) for withdrawal, long-term lease, or sale of land; and an indemnity of $600 a year for farmers from 55 to 65 years old.
- Aid to those who stay in farming —such as subsidized interest rates and loan guarantees to those who keep accounts and can show with an appropriate development plan that in 6 years they will reach an income equal to that outside farming. (Few would qualify.)
- Establishment of programs and centers for socio-economic counseling and technical reeducation, and payments to farmers who participate.
- Aid to the formation and operation of producer groups.

In May the Commission made two related proposals for "regional" development:

- Capital grants of $1,500 to new industry, artisan, or service activities for each job created in a primarily agricultural region for a farmer or one of his children leaving agriculture. The grants would be paid from FEOGA, the common agricultural support fund.
- An interest-reduction fund, financed from the EC budget, which would pay up to 3 percentage points of the annual interest on loans for up to 12 years to these new activities.

Those proposals even if adopted will not help many farmers. No early decision on them is in sight. In the meantime, EC farm groups see no other recourse than to press for higher prices. They have asked for an increase of 11 to 12 percent for 1972-73.

The EC Commission is looking for other solutions. In June, it proposed a price increase of 2 to 3 percent for 1972-73, based on a formula aimed at meeting the needs of the top 10 percent of EC farmers. In addition, it proposed direct income payments of $600 per year to farmers 45-55 years old not eligible for the farm improvement aid just described. Eligible farmers would also receive an annual payment starting at $600 and declining $100 each year to zero after 6 years.

It is not surprising that these proposals were regarded as inadequate. The Commission has therefore agreed to reconsider, and to recommend price raises of 4-8 percent.

**Impact of enlargement.** The United Kingdom, Denmark, and Ireland have agreed to accept the CAP "unchanged" when they join the European Community in 1973. Norway has pressed for some form of exceptional treatment, since it is the one applicant country in

which the main farm support prices are higher than in the EC. Norway seeks to avoid a drop of as much as 40 percent in farm income; in addition, it has a special problem with fishing rights.

Acceptance of the CAP "unchanged" means in particular that the new members agree to certain basic principles: A preferential market for other members' products, common financing of agricultural support, common prices, and common support systems. The last two principles require qualification.

Monetary problems have already disrupted common pricing. Further, there is no specific commitment on the future level of support prices. The British, especially, might well appreciate lower EC support prices, but this does not mean that, once in, they will press for a reduction (or even a freeze) in support levels. Britain's self-interest lies not only in the level of support but in its cost, especially if the EC moves toward some form of direct payments to maintain farm income. Faced with the choice at home between higher prices or higher Treasury costs, the present British Government has already opted for higher prices.

Common support systems, too, will necessarily be changed. For example, the present grain regulation sets a basic support (intervention) price for the most deficit (highest price) market—Duisburg, Germany. Support prices in producing areas are lower, generally by the cost of transportation to Duisburg. If grain support prices were uniform throughout the Community, French grain would be too expensive to be sold in Germany and would have to be exported to third countries under heavy subsidies. What will the support price be in London? Will it be higher than in Duisburg?

One certain effect of enlargement will be the greatly increased difficulty of operating a CAP for 10 countries instead of six. EC regulations require support prices for most field crops to be set by August 1 prior to winter planting for harvest the following year—a deadline the Six have almost never met. It is hardly likely that the Ten will find this easier.

Further, to reach agreement on CAP regulations, the EC has allowed many national exceptions. These have included German intervention premiums on rye and brewing barley, extra subsidies on Italian rapeseed and sugar, French export subsidies on molasses and sugar, national import restrictions and—until recently—national export subsidies for processed fruits and vegetables, special sugar quota rules for the Netherlands, former restrictions by Luxembourg on its imports from other Member States—to mention only a few.

Now, Norwegian agriculture will require broad exceptions, and the United Kingdom is already claiming exemptions for hill farming. If there is no streamlining of institutional procedures or relaxation of the unanimous voting practice, the increased bargaining between national interests is apt to cause tremendous difficulty in making any important decisions.

An important long-run impact of enlargement on the CAP may be the pressures exerted by shifting production and trade patterns in response to price changes. EC price levels, if adopted by the applicant countries, will supply strong incentives to them for increases in production and reductions in consumption and net imports.

Any forecasts of the impact of EC enlargement on individual products must be used with considerable caution. However, a study recently published by the Institute of International Agriculture at Michigan State University projects a drop to near zero in net gain requirements by 1980 for the 10 countries comprising the enlarged EC; a slight drop in net import requirements of beef and veal; and substantial increases in net exports of poultry, pork, and milk fat.

These trends imply increased costs to finance government purchasing of surpluses and export subsidies, reduced levy collections from imports, and increased Member State contributions to the common agricultural support funds from other resources (possibly increased taxes). This increased financial burden might lead the EC to tie structural assistance—if not price support—to some form of production discipline. This idea has already appeared, in particular, in France's Sixth Economic Plan (see *Foreign Agriculture*, Nov. 22, 1971.)

In the future, therefore, there will probably be increased efforts on a Community scale to ease inefficient farms out of production and to improve the structure of those that remain. Some of this assistance might be made contingent upon greater producer organization and cooperation, first in controlling the flow of goods to the market and eventually in planning (or limiting) the volume of production. The latter idea, however, implies a degree of producer organization not likely to be reached for years.

Agreement on structural reform will certainly be no easier when the United Kingdom and the other new members bring their own problems into the EC. Enlargement of the EC will produce some technical changes in the CAP, but will make it much more difficult to manage without a considerable degree of flexibility to accommodate national interests. Finally, the increasing costs and smaller levy receipts expected after enlargement are more likely to shift sources of financing than to produce major reforms.

**The newer and larger farms in France—those such as the CAP tries to encourage—are well equipped with machinery.**

# Canada's Market Development and Promotion Drive Geared for Tough Trade Rivalry

Keener competition on world markets has prompted Canadian officials to stress their efforts to promote exports of agricultural products to traditional overseas buyers. Canadian producers are also trying to develop new markets, since the United Kingdom—a major buyer of Canadian agricultural products—will soon join the European Community and thus adopt more stringent trade restrictions.

Canada's expenditure for foreign market promotion and development of agricultural goods is small—especially when compared with that of the United States—amounting to only Can$1.38 million in 1970. Canadian trade officials had hoped to raise this amount in 1971. However, a proposed $10 million yearly expenditure for foreign market development of grains and oilseeds, which had been urged by Agriculture Minister Olson, was rejected by Parliament.

Most of Canada's foreign market promotion and development efforts for agriculture are carried out by the Department of Industry, Trade and Commerce and by the Canadian Wheat Board—although Provincial Governments and autonomous Government agencies also participate.

Canada relies heavily on two types of promotions—trade fairs and trade missions (either Canadian teams sent abroad or foreign teams invited to Canada). During the 1960's, Canada participated in four or five agricultural or food trade fairs annually. During the same 10-year period, about 20 agricultural trade missions were sent abroad, while over 30 foreign missions were invited to Canada.

Canada's marketing promotions in the People's Republic of China and the Soviet Union were at least partly prompted by the increasing willingness of the United States to trade with these two countries. Mainland China and the USSR have traditionally been good markets for Canadian agricultural products—and are growing markets for manufactured goods as well.

Canada has been an important trading partner for China for several years: Canadian exports to China totaled $142 million in 1970, which included $122 million of wheat. On December 17, 1971, Canada announced the signing of a new contract with Mainland China for delivery of 117 million bushels of wheat—the largest 1-year contract ever negotiated between the two countries.

A Canadian trade mission visited Peking last June for discussions with officials of the seven state corporations involved in world trade. These talks established an increasing demand for capital goods in China, many of which could be obtained from Canada.

The mission also arranged for a Canadian Solo Exhibition which will be held in Peking from August 21 to September 2, 1972. Housed in Peking's Exhibition Center, the 140,000-square-foot exhibit will include agricultural and fisheries products, industrial equipment, and manufactured items.

Jean-Luc Pepin, Minister of Industry, Trade and Commerce and also the leader of the mission to China, said that he hoped the exhibit would introduce Chinese trade authorities to Canadian businessmen and to the range and quality of Canadian products. The exhibit should also provide an opportunity for Canadian suppliers to develop long-term export markets with China.

Trade fairs are the major medium used by the Chinese for developing foreign trade. Each year, four countries are invited to stage displays at the Exhibition Center in Peking.

These exhibitions are attended by representatives of the state trading corporations, university students and lecturers, scientists, and factory technicians.

Since the Exhibition Center is now booked through 1974, the exhibition next August will provide the only opportunity for Canadian producers to introduce their goods for several years.

Canada has also been active in further developing trade ties with the Soviet Union. A 12-man Canadian trade mission visited the Soviet Union from December 6 to Dec. 18 with the intention of strengthening trade between the agribusiness sectors of the two nations. The mission's activities included talks with Soviet officials to explore opportunities for licensing arrangements which will cover agribusiness information and technology.

The Canadians' itinerary included visits to a meat processing plant in Moscow, a combine factory at Taganrog, a cattle breeding farm at Kitov, a state farm at Krasnodar, and various scientific research centers.

The mission was arranged following an invitation extended by L. N. Efremov, First Deputy Chairman, State Committee of the USSR Council of Ministers on Science and Technology. Mr. Efremov headed a Soviet mission to Canada in September 1971 to study Canadian capabilities in agricultural production and processing.

Besides strengthening ties with established customers of goods, Canadian promotion efforts have also tried to develop new markets. At least part of this effort has been concerned with access to markets—by eliminating barriers to Canadian goods.

The Canadian apple missions, for example, have tried to eliminate trade restrictions on Canadian apples. So far, missions have been sent to Japan, New Zealand, Australia, and South Africa.

The mission to South Africa was successful in readmitting Canadian apples to that market. Canadian apples were banned from South Africa in 1966, when insects presented a quarantine problem. The mission convinced South African authorities of the effectiveness of a new fumigation treatment for mites and other insects which eliminates this problem.

The other apple missions are also working to gain access to markets. The mission to Japan is working to convince Japanese officials that the codling moth cannot survive Canadian commercial cold storage. The mission to New Zealand has presented similar evidence on the apple maggot. Australian officials have expressed interest, but have not yet stated what research would be necessary to allow imports of Canadian apples.

Now that Canadians are more aware of the new threats to their established markets and of the potentials of new markets, U.S. agricultural producers must look forward to increasingly determined and aggressive marketing competition from them.—L. J. F.

# U.S MOHAIR EXPORTERS SEEK BIGGER MARKETS

By ROGER W. LOWEN
*Livestock and Meat Products Division*
*Foreign Agricultural Service*

The United States is the world's largest producer of mohair and shares the lead in world exports with South Africa. Reflecting a contraction in world production, U.S. output averaged 24 million pounds a year between 1966 and 1970, compared with an average annual production of 29 million pounds during the previous 5 years.

During the same periods, U.S. reliance on foreign markets increased as exports rose from 35 to 45 percent of annual production. To counter weak market trends of the past few years, American producers are seeking to promote the use of mohair by domestic manufacturers and to expand overseas markets for raw mohair and for American-produced mohair "tops."

(A top is a heavy, continuous rope-like twist of combed angora fibers.)

Mohair's traditional uses are multifold. It is often blended into men's fine suiting and is used in cloth for women's dresses, for artificial furs, and to give an appearance of weightlessness to meshes. High-quality upholstering materials often contain mohair.

The use of adult mohair in carpeting is a new development which could improve the demand situation. Tests have shown that mohair carpeting outlasts wool two or three times and is far more durable than synthetic carpeting.

The angora goat—source of mohair—originated in the high Himalayas. Eventually it migrated to the Turkish Province of Angora (now Ankara), from which it got its name. In 1849 a small number were brought to the United States, which now has more angoras than can be found in either the towering Asian mountains or the rugged Asia Minor highland.

Angora goat herds in the United States are centered in the Edwards Plateau of Texas—the State which produces 96 percent of U.S. mohair output. The remaining 4 percent is divided among a number of other western U.S. States.

In the 1970 production year (starting Apr. 1), the United States produced 16.7 million pounds of mohair (greasy basis) valued at $6.5 million, compared with an estimated 15.9 million pounds in Turkey and approximately 11.4 million pounds in the Republic of South Africa and Lesotho, combined. Total 1970 world production of some 44 million pounds was more than 25 percent under the average production of the previous decade.

A severe drought in South Africa and adverse fashion trends combined to bring about this decrease. And, like other natural fibers, mohair suffers from competition with synthetics.

Future levels of mohair production are difficult to predict. Angora goat numbers, particularly in the United States, have been sensitive to price trends which, in turn, respond to demand. Style changes and new product development could have a favorable impact; expanded substitution of synthetics could further erode demand. The world price of wool will also bear

WORLD MOHAIR PRODUCTION AND EXPORTS

| Year | United States | | Turkey | | S. Africa and Lesotho | |
|---|---|---|---|---|---|---|
| | Production[1 2] | Exports[3] | Production[1] | Exports[4] | Production[1 5] | Exports[4] |
| | *Mil. lb.* | *Mil. lb.* | *Mil. lb.* | *Mil. lb.* | *Mil. lb.* | *Mil. lb.* |
| Average 1961-65 | 29.0 | 10.3 | 18.5 | 10.9 | 13.4 | 12.3 |
| Annual: | | | | | | |
| 1966 | 29.6 | 16.0 | 19.4 | 7.0 | 16.2 | 13.9 |
| 1967 | 27.1 | 10.1 | 18.5 | 7.1 | 13.9 | 11.6 |
| 1968 | 26.0 | 15.1 | 18.3 | 8.0 | 13.7 | 11.1 |
| 1969 | 21.2 | 7.1 | 16.6 | 6.7 | 14.0 | 12.6 |
| 1970 | 16.7 | 10.6 | 15.9 | 4.5 | 11.4 | 10.0 |

[1] Greasy basis. [2] Year beginning April 1. [3] Clean weight basis. [4] Actual weight basis. [5] Year beginning July 1.

heavily on trends in the mohair market.

However, preliminary estimates for 1971 suggest that U.S. mohair production may equal 17 million to 18 million pounds; Turkey's should fall slightly to about 15.4 million pounds; and that of the Republic of South Africa and Lesotho may decline further to a combined total of about 10 million pounds.

Prices paid for mohair have fluctuated widely in recent times. Down from a speculative high close to $2 a pound a few years ago, kid mohair is now selling for about 60 cents a pound; yearling mohair is selling for about 30 cents a pound, while adult mohair is down to 27 cents a pound.

Normally, South Africa—which exports most of its production—leads in mohair shipments. However, in 1970 the United States accounted for 10.6 million pounds of mohair (clean basis) of total world exports of 25 million pounds. South Africa (including Lesotho) exported 10 million pounds in 1970; and Turkey, which consumes most of its mohair in domestic cottage industries, exported 4.5 million pounds.

The United Kingdom takes the lion's share of U.S. mohair exports (over 70 percent); Italy, Japan, Switzerland, France, and Belgium follow with lesser amounts. The United Kingdom processes the raw greasy mohair and reexports it in the form of Bradford tops.

During the first 10 months of 1971, the United Kingdom continued to be the best customer of the United States and took 7.3 million pounds of total U.S. mohair exports of 9.8 million pounds. The European Community bought another 1 million pounds, while exports to Switzerland were 760,000 pounds, and those to Japan only 125,000 pounds. However, this small figure belies total Japanese mohair consumption, which is estimated to exceed 3 million pounds a year.

For the purpose of promoting mohair and its products, the Secretary of Agriculture recently entered into an agreement with the Mohair Council of America to continue to authorize deductions of 1.5 cents per pound from payments on marketings of mohair.

(Under the National Wool Act, the 1970 payment to producers of mohair by the U.S. Government equaled 41.1 cents per pound. This was the difference between the mohair support price of 80.2 cents and the average price of 39.1 cents per pound received by all producers during 1970.)

These deductions enable the council to carry on advertising and related market development activities in the United States. In addition, the Foreign Agricultural Service has worked closely with the council to study the European production and marketing situation and to send a marketing team to Japan to expand U.S. mohair sales.

The first of its kind, the joint mohair mission to Japan had two basic objectives: First, to stimulate consumption of the fiber in general by demonstrating new products and uses; and secondly, to expand and strengthen direct trade in mohair with Japan.

Noel C. Fry, President of the Mohair Council, headed the group composed of council and FAS personnel which discussed mohair trade problems with the Japanese in Tokyo, Nagoya, and Osaka in late September.

The Japanese learned of America's ability to provide graded mohair, using newly developed USDA specifications, as well as to supply high-quality tops.

The Americans learned that packing methods had to be altered to allow for greater compression of export packs of both raw mohair and mohair tops to reduce damage and shipping charges.

These efforts should broaden the market for American-produced raw mohair and mohair tops. Those interested in the mohair trade are urged to write for additional information to the Mohair Council of America, 151 West 40th Street, New York, 10018.

**Top, an angora goat being clipped at a ranch in the Edwards Plateau region of Texas. Bottom, Japanese examining samples of U.S. mohair products.**

# Australian Pact, U.S. Dock Strike Erode U.S. Wheat Sales to Taiwan

A change in the trading pattern of the Republic of China in 1971 and the effects of the U.S. west coast dock strike resulted in reductions of U.S. wheat sales to that country.

The United States dominated Taiwan's wheat market in early 1971 by providing 100 percent of its wheat imports. But in May the Australian Wheat Board and the Taiwan Flour Mills Association signed an agreement for the purchase of 250,000 tons of Australian wheat.

Of this total, 100,000 tons were to be supplied before the end of calendar 1971 and the balance in calendar 1972. This tonnage will represent some 25 percent of Taiwan's annual imports of milling wheat in 1971 and 1972. In the years prior to the signing of the pact, the United States supplied an average of about 90 percent of Taiwan's annual wheat imports.

Because of the 100-day west coast dock strike (extending from July 1 to October 7, when an 80-day cooling-off period went into effect under the Taft-Hartley Act), the Taiwan Flour Millers Association—in an effort to restrain domestic prices—bought 1,565 metric tons of flour from Hong Kong and Japan. In addition, 31,000 metric tons of Canadian wheat were purchased during the strike in lieu of purchases of that amount from the United States.

In 1970-71, Taiwan imported a total of 687,000 tons of wheat and 556,000 tons of corn. The U.S. Census Bureau reports that exports of U.S. wheat to Taiwan in that year were 574,000 tons, while corn shipments from the United States totaled 42,300 tons and barley shipments were 17,500 tons.

Taiwan's total feedgrain imports in 1970-71 totaled 892,000 tons.

Most of Taiwan's corn imports come from Thailand, but in early 1971 the Chinese Government also purchased corn from Argentina, Australia, South Africa, and a small amount from the United States. However, in July, the Government Board of Trade concluded a new agreement with Thailand for the delivery of an additional 400,000 tons of Thai corn between October 1971 and April 1972.

In order to reduce dependence on corn imports, the Provincial Department of Agriculture and Forestry (PDAF) has encouraged Taiwanese farmers to increase corn output. The PDAF hoped to reach a target of 120,000 tons of corn by the end of 1971 by expanding area and increasing yields through improved irrigation techniques. —Based on dispatches from

NORMAN J. PETTIPAW
*U.S. Agricultural Attaché, Taiwan*

# American Exporters Can Up Food Sales to Germany

By NORRIS T. PRITCHARD
*and* W. SCOTT STEELE
*Economic Research Service*
*and* WILLIAM P. HUTH
*Foreign Agricultural Service*

**General manager (center) of Germany's Esbella stores inspects local point-of-purchase promotion of U.S. foods.**

THE CONTINUING revolution in Germany's dynamic food market offers both opportunities and challenges to U.S. food manufacturers and suppliers of farm products.

Germany is only 70 percent self-sufficient in food production and imports large quantities of agricultural products each year. In 1970, imports reached $6.4 billion.

The United States supplied $696 million—about 11 percent. Oilseeds and their products were the largest U.S. export to West Germany, amounting to $313 million. Feedgrain sales were valued at $124 million; bread grains, $54 million; tobacco, $64.5 million; and fruits and vegetables, $43.7 million.

Although the Germans have for a long while had more than enough good food, their expenditures still are rising about 2 percent a year. German consumer outlays for factory-processed foods are expanding about 4 to 5 percent a year. Supermarket inventories continue to rise as more retailers offer increasingly affluent and more open-minded German customers a broader selection of higher quality foods. Consumption of some convenience foods continues to rise at above-average rates. Among these are frozen foods, prepared main dishes and meals, canned and frozen juices and drinks, pet foods, and baby foods.

Opportunities also are favorable for expanding winter-season exports from the United States of such fresh fruits and vegetables as radishes, celery, iceberg lettuce, oranges, and grapefruit. Sales of citrus juices, soft drinks, prepared soups, and so-called health (naturally grown) and diet foods are rising. Sales of food products designed for tourists (mainly campers) and for the rapidly expanding hotel, restaurant, and institutional food trade have great potential.

Most of the marketing conditions and problems confronting food manufacturers in the U.S. market basically are the same as those faced by U.S. exporters of food products to Germany. The modernization of German food marketing has made it basically similar to U.S. marketing; thus the basic techniques for successful marketing of processed foods also are becoming the same in Germany as in the United States.

That is, the many elements of a firm's total marketing effort (called the "marketing mix" by the trade)—including the product or product line, prices, quality, flavor, package, method of distribution and selling, advertising, sales, and promotion—which are now being used successfully in marketing in the United States are rapidly proving profitable in Germany.

However, some elements of German food marketing are sufficiently different to require some modification of U.S. marketing practices in Germany.

Such differences center on several factors. These include the growing concentration of marketing power among a small number of German food retailing and manufacturing companies; recent developments in marketing organization; cost and limitations on advertising and promotion; and prices, particularly the impact of the European Community's (EC's) Common Agricultural Policy on prices of "third country" products in the EC.

German food distribution seems destined to be dominated by a few large organizations. In 1961, West Germany had some 350,000 food stores of all types. Ten years later there were about 245,000, a net loss of slightly more than 200 stores a week or about 3.5 percent a year.

At the same time, the number of supermarkets and other large retailers of food are expected to reach 9,000 by 1980 and will probably account for 65 to 70 percent of Germany's retail food sales.

Purchases of imported food may become even more highly concentrated. Imports needed by German retailers may be purchased by buyers in the main offices of 18 or fewer large firms and buying groups.

Because of their growing market power, the leading German retailing organizations, like their U.S. counterparts, are increasingly able to raise and enforce their demands on both foreign and domestic suppliers on such key issues as product quality, prices, packaging, deliveries, and promotion allowances.

Another development with potentially great significance for U.S. food exporters is the growth of international associations of European food retailers. Most of the national retailer cooperatives are members of international associations. Although most of the associations limit their operations to those of a trade association, some are experimenting with joint purchasing of prod-

ucts for their members. For example, one group bought U.S. food products packed under the international association's own label.

Members of some international groups are satisfied with recent joint purchasing operations, while others feel that no international buying group can obtain better terms than any that national associations now receive. They claim each national association is large enough to command the most favorable terms that most manufacturers can afford to offer.

Aside from the direct economic impact, international associations maintain an elaborate network of comprehensive information systems which can have marked impact on the reputations, sales, strategies, and operations of all food manufacturers doing business with Europe's major food retailing organizations.

Recent developments in marketing methods and management in Germany also are increasing the marketing challenges to U.S. exporters. Germany's new supermarkets, self-service department stores, and shopping centers are leaders in the adoption of modern management and merchandising methods. They are expertly managed by professionally trained executives supported by skilled staffs, who are aggressively consumer oriented. Competition among them is intense.

Therefore, successful merchandising of U.S. food products for German consumers through these modern retailers requires the same marketing expertise needed for marketing in the United States.

Food product advertising in Germany, compared with the United States, is more expensive, less extensive, and more concentrated in newspapers, handbills, magazines, and joint retailer-manufacturer promotions.

Commercial advertising is banned from German radio and advertising on TV reportedly is limited to 20 minutes a day in four 5-minute segments. Magazine advertising rates are high in terms of costs per 1,000 potential readers. Contributing to this probably is the fact that the German postal service will not handle magazines with an advertising content exceeding 50 percent of the total space.

German food retailers rely heavily on newspaper and handbill advertising. Only a few large food manufacturers advertise a small number of products nationally.

Large shares of advertising and promotion budgets seem to be earmarked for joint retailer-manufacturer promotions sponsored and controlled by major food retailing organizations. In return for shelf space, manufacturers pay most of the costs of these "joint" promotions and give the retailers a variety of discounts and rebates on purchases during the promotion period. A special promotion of a single product in the stores of a large German retailer cooperative or voluntary chain could cost the manufacturer anywhere from $19,000 to more than $40,000.

In addition, food manufacturing executives give high priority to direct merchandising. Their salesmen call frequently on the retailers' chief buyers, they spend far more time working in the stores with managers and clerks to assure proper handling and display of their products. Although this form of merchandising is expensive, food industry executives consider it the shortest route to more sales and higher profits.

Although the total U.S. export figure for 1970 suggests that prices of a good number of U.S. food products and basic farm commodities are competitive in the German market, prices of many U.S. products are too high to permit a substantial volume of sales.

In fact, while many Germans have a high regard for the quality of U.S. goods and for U.S. marketing techniques and services, these advantages cannot overcome the primary obstacle of prices higher than those for similar products available from German or other sources.

Three factors mainly have been responsible for the serious price problem. One of these may be nearly solved. Until recently, prices of all U.S. merchandise in Germany were artificially inflated because of the relationship of the U.S. dollar to the mark. As a result of the recent revisions in exchange rates, market prices of all U.S. goods in terms of the mark are now lower. For some products—about one-fourth of the total—Germany has imposed additional taxes to offset this reduction. Otherwise, these revisions are expected to promote larger sales of U.S. farm products other than those subject to the EC's CAP and system of variable levies.

The second factor affecting the price

*(Continued on page 12)*

## Major West German food buyers and distributors

**Food Chains' Buying Company**

GEDELFI Import, G.m.b.H.
5022 Junkersdorf/Cologne
Kirschweg 2

**Consumer Cooperatives' Buying Company**

GEG-Zentrale, G.m.b.H.
2000 Hamburg 1
Basenbinderhof 43

**Retailer Cooperatives**

EDEKA-Zentrale, e.G.m.b.H.
2000 Hamburg 1
An der Alster 52

REWE—Zentralimport, e.G.m.b.H.
5000 Cologne
Jakordenstrasse 3-7

**Department-Variety Stores**

Karstadt, A.G.
4300 Essen
Berliner Platz 1

Kaufhof, A.G.
5000 Cologne
Leonhard-Tietz-Strasse 1

Hertie Waren- und Kaufhaus, G.m.b.H.
6000 Frankfurt am Main
Zeil 42

Helmut Horten, G.m.b.H.
4000 Düsseldorf
Am Seestern

**Voluntary Chains**

Handelshof SPAR, G.m.b.H.
6000 Frankfurt am Main/Reinbeck
Walter Kolb Strasse 11

A&O Handelsgesellschaft, m.b.H.
7600 Offenburg/Baden
Englerstrasse 1

HKG-Handelsketten, G.m.b.H.
5000 Cologne
Nasse Strasse 26

ZHG-Zentrale Handelsketten, G.m.b.H.
6000 Frankfurt am Main
Eschenheimer Anlage 28

**Cash-and-Carry Wholesalers**

Grossmarkte Metro-SB, G.m.b.H.
400 Düsseldorf-Grafenberg
Schlüterstrasse 3

Terflothund Snök, G.m.b.H.
4400 Munster
Albersloherweg 194

# CROPS AND MARKETS

## GRAINS, FEEDS, PULSES, AND SEEDS

### Rotterdam Grain Prices and Levies

Current offer prices for imported grain at Rotterdam, the Netherlands, compared with a week earlier and a year ago:

| Item | Jan 12 | Change from previous week | A year ago |
|---|---|---|---|
| | *Dol. per bu.* | *Cents per bu.* | *Dol. per bu.* |
| **Wheat:** | | | |
| Canadian No. 1 CWRS-14 .. | 2.01 | 0 | [1] 2.08 |
| USSR SKS-14 ..... | 1.88 | 0 | 2.05 |
| Australian FAQ ..... | 1.90 | +1 | 1.88 |
| U.S. No. 2 Dark Northern Spring: | | | |
| 14 percent ..... | 1.93 | +1 | 2.06 |
| 15 percent ..... | 1.99 | +1 | 2.10 |
| U.S. No. 2 Hard Winter: | | | |
| 13.5 percent ..... | 1.78 | 0 | 1.98 |
| No. 3 Hard Amber Durum.. | 1.82 | +1 | 2.01 |
| Argentine ..... | ([2]) | ([2]) | ([2]) |
| U.S. No. 2 Soft Red Winter.. | 1.74 | 0 | 1.90 |
| **Feedgrains:** | | | |
| U.S. No. 3 Yellow corn .... | 1.45 | +1 | 1.83 |
| Argentine Plate corn ..... | 1.63 | +4 | 1.86 |
| U.S. No. 2 sorghum ..... | 1.56 | 0 | 1.62 |
| Argentine-Granifero sorghum | 1.59 | +3 | 1.60 |
| U.S. No. 3 Feed barley .... | 1.30 | +3 | 1.56 |
| **Soybeans:** | | | |
| U.S. No. 2 Yellow ..... | 3.39 | −4 | 3.34 |
| **EC import levies:** | | | |
| Wheat [3] ..... | [4] 1.61 | +1 | 1.40 |
| Corn [5] ..... | [4] 1.07 | 0 | .63 |
| Sorghum [5] ..... | [4] .95 | 0 | .73 |

[1] Manitoba No. 2. [2] Not quoted. [3] Durum has a separate levy. [4] Effective October 14, 1971, validity of licenses with levies fixed in advance is a maximum of 30 days. [5] Until Aug. 1, 1972, Italian levies are 19 cents a bu. lower than those of other EC countries. Note: Basis—30- to 60-day delivery.

## COTTON

### Near-Record Cotton Crop Predicted in Brazil

Recent reports from Brazil indicate that the 1971-72 (August-July) cotton crop will be the largest since the record 3.3 million bales (480 lb. net) produced in 1968-69 and a full 900,000 bales above the 1970-71 crop.

A substantial upward revision of earlier estimates for the southern crop has boosted the 1971-72 production estimate for all of Brazil to about 3.15 million bales—an increase of about 300,000 bales above previous estimates. The improved outlook for the Brazilian crop comes at a time of tight world cotton supplies and record-high international prices.

Increased price incentives in the south and more normal weather in the north have contributed toward the 40-percent increase for this season's crop above the 1970-71 harvest. Drought in the north and adverse weather and insect damage in the south drastically reduced the Brazilian crop in 1970-71 to 2.25 million bales, substantially below the previous 5-year average of 2.7 million.

Cotton growers in southern Brazil, in contrast to producers in the Northern Hemisphere, plant their crop in October and November and harvest during March-June. Tight world supply and a consequent run-up in world cotton prices during 1971 contributed to the higher than expected returns realized by southern growers for the 1970-71 crop. This experience, together with a 43-percent increase in Government minimum support prices for the 1971-72 crop, stimulated a 23-percent increase in plantings in south Brazil this fall. Production in the south is expected to rise from 1.9 million bales last season to more than 2.3 million in 1971-72. The Brazilian Government has also announced a 39-percent increase in average minimum support prices for the 1972-73 northeast crop, which will be harvested in the second half of 1972.

Brazilian exports in 1971-72 are presently estimated at about 1.7 million bales, up 700,000 bales from 1970-71 but still below the record 1.9 million exported in 1969-70. Much of this increase will probably come from the larger northeast crop (up 400,000 bales), where harvesting began in July, and from early portions of the southern harvest. However, since the major portion of the southern crop entering export markets is shipped between the months of May and October, not all of the 500,000-bale increase in the 1971-72 southern crop will be reflected in 1971-72 exports. The record 1968-69 harvest, for example, contributed toward increased exports in both 1968-69 and 1969-70.

Largest purchasers of Brazilian cotton in 1970-71 were Japan (about 300,000 bales), Taiwan (about 175,000 bales), and Hong Kong, West Germany, South Africa, and the Netherlands (50,000 to 100,000 bales each).

Brazilian textile mills are expected to consume nearly 1.4 million bales this year, all of which will be Brazilian cotton.

## LIVESTOCK AND MEAT PRODUCTS

### U.S. Prohibits Meat Transshipments For 1972 Import Program

The U.S. Department of Agriculture has issued an order prohibiting transshipments into the United States during calendar 1972 of meats subject to the Meat Import Law and originating in Australia, New Zealand, and Ireland. The action was taken on December 30, under Section 204 of the Agricultural Act of 1956.

The Meat Import Law, in effect since 1964, covers fresh, chilled, or frozen beef, veal, mutton, and goat.

Transshipments originally provided a loophole in the voluntary restraint program that has been in effect since 1969. This was closed in mid-1970 by a prohibition of transshipments and has remained closed since then. The new regulation continues the same prohibition for 1972. It does not affect direct shipments originating in these supplying countries.

The Department said that the Department of State currently is consulting with the principal supplying countries on a new voluntary restraint program for 1972. This program will be taken into account in the estimate that the Secretary of Agriculture will issue in the near future on 1972 imports of meats subject to the Meat Import Law.

U.S. IMPORTS OF MEAT SUBJECT TO MEAT IMPORT LAW,[1] JANUARY-NOVEMBER 1971, WITH COMPARISONS

| Country of origin | November | | Jan.-Nov. | | Change from 1970 | |
|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1970 | 1971 | Nov. | Jan.-Nov. |
| | *1,000 pounds* | *1,000 pounds* | *1,000 pounds* | *1,000 pounds* | *Percent* | *Percent* |
| Australia ... | 37,983 | 24,419 | 537,662 | 467,858 | −36 | −13 |
| New Zealand | 14,886 | 7,816 | 209,186 | 215,662 | −48 | + 3 |
| Costa Rica.. | 4,707 | 3,874 | 35,608 | 35,865 | −18 | + 1 |
| Mexico .... | 4,406 | 7,664 | 74,982 | 73,514 | +74 | − 2 |
| Nicaragua .. | 2,705 | 3,645 | 37,910 | 31,483 | +35 | −17 |
| Canada .... | 6,296 | 7,250 | 70,038 | 71,866 | +15 | + 3 |
| Ireland .... | 6,799 | 2,267 | 59,791 | 58,960 | −67 | − 1 |
| Guatemala .. | 60 | 1,831 | 22,405 | 19,897 | +2,952 | −11 |
| Honduras .. | — | 2,532 | 15,723 | 15,499 | — | − 1 |
| Panama .... | — | 493 | 5,101 | 2,462 | — | −52 |
| Dominican Republic.. | 804 | 856 | 6,736 | 5,809 | + 6 | −14 |
| United Kingdom ..... | 571 | 314 | 4,442 | 2,161 | −45 | −51 |
| Haiti ..... | 132 | 212 | 1,191 | 1,283 | +61 | + 8 |
| Total[2] ... | 79,349 | 63,174 | 1,080,775 | 1,002,318 | −20 | −7 |

[1] Fresh, frozen, and chilled beef, veal, mutton, and goat meat including rejections. Excludes canned meat and other prepared or preserved meat products. [2] May not add due to rounding.

## SUGAR AND TROPICAL PRODUCTS

### Ghana To Raise Price Paid to Cocoa Producers

Beginning with the start of the 1972 midcrop season, Ghana's cocoa farmers will receive 10 new cedis per 60 pound head load, representing a gain of 2 new cedis or 25 percent over prices previously paid to growers.

However, effective December 27, 1971, the Ghana new cedi was devalued by nearly 44 percent from an exchange rate of 98 U.S. cents to the new rate of 55 cents per new cedi. In terms of U.S. currency, Ghanaian cocoa farmers will receive about 9.2 cents per pound beginning with the 1972 midcrop, compared with 13.1 cents prior to devaluation.

### United States Becomes Largest Buyer Of Zaire's 1970-71 Coffee Harvest

The United States was the main destination of Zaire's coffee in 1970-71 (October-September). In previous years Italy had been the largest importer. Total exports during the 1970-71 year amounted to 1,280,000 bags (132.3 pounds) according to the *Conseil National Du Café*, and about 35 percent was destined for the United States.

Coffee production in Zaire—formerly known as the Congo (Kinshasa)—may be down 100,000 bags in 1971-72 from the 1970-71 crop of some 1,200,000 bags. The Conseil estimates, however, that the 1972-73 production will amount to about 1,300,000 bags, and this expected increase is causing some concern. Officials of the Conseil report that a study is underway regarding possible programs which could lead to increases in domestic consumption.

### Kenya Harvests Larger Crop of Pyrethrum

Reflecting more favorable growing conditions, Kenya's 1970-71 (October-September) pyrethrum crop totaled 21.5 million pounds (dry flower basis), up from 1969-70 production of only 13.2 million pounds.

In June 1971, the Kenya Pyrethrum Board increased prices to growers by about 6.7 percent for the whole range of pyrethrins content of dried flowers. The Board is encouraging larger production to meet the growing export demand for pyrethrum.

Kenya remains the world's largest producer and exporter of pyrethrum, accounting for about 60 percent of global production.

## FATS, OILS, AND OILSEEDS

### Mexico's Sunflowerseed Crop Below Expected Production

Mexico's first harvest of sunflowerseed in 1972 is now forecast at about 40,000 metric tons from 197,680 acres. As harvest got underway in December, average yields—at 446 pounds per acre—were less than anticipated even though high-yielding varieties had been planted.

Mexico bought three different Russian varieties of sunflowerseed from Spain for planting and harvest in 1971-72. Although the specific quantity is not known, it is believed to have been more than 500 tons. Most of the seed was planted in Durango, Zacatecas, and Aguascalientes, with a small quantity in Jalisco.

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# USDA State Group To Join in Tokyo Food Show

The U.S. Department of Agriculture is joining with a group representing the departments of agriculture of 12 Midwestern States to sponsor a U.S. food exhibit at the U.S. Trade Center in Tokyo next April 17-21.

The objective is to increase the sale of U.S. food products to the increasingly affluent Japanese.

Although the State group, the Mid-American International Agri-Trade Council (MIATCO), is providing leadership in planning and organizing the exhibit, a part of the facilities will be reserved for use of exhibitors from other States.

USDA and MIATCO staged a similar show in Tokyo last April, which was limited to firms from the MIATCO States. Preliminary sales data show that nearly $3 million worth of U.S. foods have been sold in Japan as a result of this exhibit. The success of that venture led to the decision for a 1972 spring show.

The USDA's Foreign Agricultural Service will provide facilities, management, and other services for the project as part of its continuing program of overseas market development for U.S. agricultural products.

An FAS official said emphasis in the Tokyo show, to be called "American Food Festival," will be on categories of food products that market analysis had identified as having the best chance for rapid sales growth in Japan.

These are meat and meat products, poultry meat and products, specialty cheese items, canned and frozen fruits, vegetables and juices, dried vegetables, nuts, and new products. New products are those that have been introduced or test marketed in the United States within the past 18 months.

Japan's rise to third rank as a world economic power and the accompanying increases in consumer income have led to a demand for more food and a wider variety of foods. To help meet this demand, Japan has become the largest single country customer for U.S. agricultural products, taking a record of $1.2 billion in fiscal year 1971.

MIATCO, which headquarters in Chicago, was organized 2 years ago by the heads of the departments of agriculture of the member States to assist the States in developing uniform working programs for agricultural export development and to coordinate them through one regional office.

Member States are Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

## German Food Imports

(Continued from page 9)

of some, but not all, U.S. products is the high cost of production, marketing, and transportation. Farmers, food processors, exporters, and economists are working on this complex cost-price problem.

The third, and probably most important, factor adversely affecting prices of U.S. food and agricultural products in Germany is the high tariff imposed by the EC on many items. Of particular importance and concern are the highly protectionist variable import levies on products subject to the EC's CAP. Leading German retailers declare that high EC tariffs and other trade barriers continue to be a major obstacle to expanded purchases of a wide range of U.S. food products.

Despite these export problems, most German retailers agree that U.S. food manufacturers have opportunities to increase their sales in Germany. Rising family incomes in Germany are creating many new gaps in the German retail food market. The problem is to discover these gaps as, or even before, they become apparent. The solution to the problem is continuing intensive analysis of the German food market, followed by appropriate action designed to take full advantage of the intelligence gained through the analyses.

Germany's modern food retailers are continually expanding the number and variety of foods and nonfood products they offer to consumers. They also are replacing an even greater number of existing articles with new products. In addition, they are always looking for new products that meet the German consumer's growing demand for health, convenience, quality, and variety at reasonable prices.

With diligence and modern marketing expertise, U.S. food manufacturers and exporters should be able to increase exports to this expanding market.



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